

Proposal: 1% cap on automatic "experience and longevity steps" on all salary schedules of school employees (administrators, teachers, support personnel, etc.)

Background: Most (though not all) school employee groups are covered under collective bargaining agreements, personal contracts, or employment policies that include salary schedules which include automatic annual increases, commonly known as "step" or "experience" or "longevity" increases. These groups include administrators, support personnel (custodians, bus drivers, secretarial, teacher aids), finance office professionals, and teachers.

These salary schedules award automatic compensation increases to employees for no reason other than an additional year of employment has passed. These automatic increases frequently range between 3%-6% and are not based on performance or merit.

These schedules, which include the automatic salary increase formulas were primarily developed and collectively bargained nearly 50 yrs ago in the late 1960s / early 1970s, and have not significantly been adjusted since.

The proposal advocates that these automatic, non-performance based increases are bankrupting Michigan's schools, and that it's time to recalibrate these schedules to align with our current 2010 economic situation, and is based on a belief that paying an employee an additional 3%, 5%, or even 6% automatically each year, regardless of performance must stop.

Recently passed MCL 380.1250 requires that *job performance be used as a significant factor in determining additional compensation*. Does the awarding of significant, automatic, non-performance based additional compensation comply with this new law?

Impact: Conservative estimates show **savings** to taxpayers of more than **\$1.85 Billion** statewide in the first year, and growing at a rate of as much as 1%-2% each year thereafter.

The attached examples show how savings have been calculated/estimated and include savings estimates based on a portion of the state's approximately 3,600 principals, and 106,000 teachers. Additional savings can be generated from the more than 65,000 other non-instructional school employees statewide, many of whom are covered by salary schedules which include automatic step increases.

Examples of Savings:

Column "Service Year" shows the number of years in the position (30 yrs typical for teachers, and 10 yrs typical for principals).

Column "Current Salary" (green) shows the actual current salary for these positions relative to the service year in the position. Salaries are based on composite figures from 3 randomly selected Michigan public schools and show the salary schedule amounts based on automatic step increases only. The salary figures from year to year do NOT include any additional annually negotiated salary increases.

Column "1% Capped Salary" (yellow) shows what the salaries would be as calculated using a cap of 1% on automatic salary increases. Note that the base starting salary in each example is the same, only the subsequent year salaries differ based on the applicable (uncapped or capped) multiplier.

Both salary columns include "Lifetime Cost" totals of all salaries for the service years shown (30 or 10) for the current salary structure and for the 1% capped structure.

Each example shows a total "lifetime" savings per employee based on the number of service years (30 or 10).

The lifetime savings between the current uncapped system and the proposed 1% cap system = \$437,533 per teacher over 30 yrs. and \$85,364 per principal over 10 yrs.

* Note: in the randomly selected districts in the example automatic increases for teachers were at a higher rate and over a longer period of time than they were for principals, and a higher percentage of teachers than principals are covered by automatic salary increases

To achieve the annualized savings = Lifetime savings / Service years
($\$437,533 / 30 \text{ yrs}$) = \$14,584 per year per teacher
($\$85,364 / 10 \text{ yrs}$) = \$7,149 per year per principal

The statewide savings per year =

106,605 teachers x \$14,584 per yr = **\$1.554 Billion per year**
50% of 3,600 principals x \$7,149 per yr = **\$12.867 Million per year**

Additional Savings:

The employer contribution rate for MPSERS for 2010 is set at 19.41%. Additional savings of 19.41% are added to the savings listed above.

Salary savings = \$1.869 Billion per year x 19.41% = **\$362.855 Million per year**

The compounding impact of negotiated annual salary increases on salary schedules is significant. Implementing a 1% would generate considerable additional savings of tens of millions \$ in each subsequent year. This compounding effect means that if the savings in year #1 = \$1.93B, and assuming a negotiated salary (not automatic step) increase of 2.0% then the savings in year #2 = \$1.97B, year #3 = \$2.01B, year #4 = \$2.05B, year #5 = \$2.09B, etc. and compounding 2% per year forever.

An additional 65,000 non-instructional personnel are employed in Michigan schools, many of whom are compensated in salary schedules with automatic annual increases. The additional employees are not factored in the examples.

Summary:

All totaled a 1% cap on existing automatic salary schedule experience steps for all school employees would generate statewide taxpayer **savings of more than \$2 Billion** annually, and grow each year thereafter. A 2% cap would generate savings exceeding \$1 Billion.

The proposal, simply put, seeks recalibration of decade's old salary schedules which grant automatic pay raises that are not tied to performance.

The proposal does not take away any group's bargaining rights and, in fact, provides room for negotiating the now mandatory merit pay system approved by the legislature in December 2009, as part of the Race to the Top reform legislation.

Legal counsel from Thrun Law firm has advised that the legislature is able to enact this proposal, providing a grand-parenting provision be made for existing contracts until they expire. In effect, counsel has said the legislature is able to extend the areas of PA 112 regarding "prohibited subjects of bargaining" to include any automatic salary step increase above 1%. Normal negotiated salary increases and merit pay outside of "automatic step increases" would still be subject to collective bargaining.

Impact of 1% Cap on Automatic Salary Step Increases
(based on composite of 3 randomly selected districts)

Service Year	Current Salary BA20	1% Capped Salary BA20
1	\$ 38,944	\$ 38,944
2	\$ 40,835	39,333
3	\$ 42,725	39,727
4	\$ 44,616	40,124
5	\$ 46,884	40,525
6	\$ 49,153	40,931
7	\$ 51,422	41,340
8	\$ 53,690	41,753
9	\$ 55,959	42,171
10	\$ 58,227	42,592
11	\$ 60,496	43,018
12	\$ 62,765	43,449
13	\$ 62,765	43,883
14	\$ 62,765	44,322
15	\$ 62,765	44,765
16	\$ 65,411	45,213
17	\$ 65,411	45,665
18	\$ 65,411	46,122
19	\$ 65,411	46,583
20	\$ 65,411	47,049
21	\$ 66,546	47,519
22	\$ 66,546	47,994
23	\$ 66,546	48,474
24	\$ 66,546	48,959
25	\$ 66,546	49,449
26	\$ 67,680	49,943
27	\$ 67,680	50,442
28	\$ 67,680	50,947
29	\$ 67,680	51,456
30	\$ 67,680	51,971

Lifetime Savings	
\$	437,533 per employee
Annualized Savings	
\$	14,584 per employee
Annualized Savings x 106,605 Michigan teachers	
\$	<u>1,554,774,170</u>

additional savings on employer MPSERS
contribution rate of 19.41% \$ 301,781,666

Total savings = **\$ 1,856,555,836**

30 year savings
per employee

** Lifetime Cost including automatic step increases ONLY	\$ 1,792,196	\$ 1,354,663	\$ 437,533
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Impact of 1% Cap on Automatic Salary Step Increases

(based on composite of 3 randomly selected Michigan school districts)

Service Year	Current Salary	1% Capped Salary
1	\$ 87,133	\$ 87,133
2	\$ 89,311	88,004
3	\$ 91,812	88,884
4	\$ 93,923	89,773
5	\$ 96,741	90,671
6	\$ 99,450	91,578
7	\$ 102,234	92,493
8	\$ 105,199	93,418
9	\$ 107,303	94,353
10	\$ 109,986	95,296

Lifetime Cost including automatic step increases ONLY

\$ 983,092	\$ 911,604
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Lifetime Savings (10 yr)
\$ 71,488 per employee
Annualized Savings
\$ 7,149 per employee
Annualized Savings x 1,800 Michigan principals
\$ 12,867,846

10 year savings per employee

\$ 71,488

additional savings on employer MPSERS contribution rate 19.41% \$ 13,876

Total savings = \$ 85,364

*** There are an additional 65,000 non-instructional school employees, of which approximately 2/3rds are covered by salary schedules which include automatic step increases. These additional non-instructional employees are not included in these estimates and would generate additional savings to taxpayers.*